Report

of the

Examination of

Berry and Roxbury Mutual Insurance Company

Cross Plains, Wisconsin

As of December 31, 2001

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June 14, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

BERRY AND ROXBURY MUTUAL INSURANCE COMPANY
Cross Plains, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on March 10, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was The Berry Mutual Farmers' Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The articles were amended December, 1996 to change the company's address from Mazomanie to Cross Plains.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Columbia, Dane, Iowa, and Sauk

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis in annual, semiannual, or quarterly payment methods. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through six agents, two of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All Lines of Business	15%

Directors have authority to adjust losses up to $2,000. Losses in excess of this amount are adjusted by at least two directors. Adjusters receive $20.00 for each loss adjusted plus $0.30 per mile for travel allowance. When additional visits are required adjusters receive $10.00 per visit.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Delwin Bruenig*	Construction Salesman	Dane, WI	2003
Ivan Bruenig	Farmer	Lodi, WI	2003
Joseph Barman	Farmer	Black Earth, WI	2003
L. Peter Wolf*	Engineer	Cross Plains, WI	2004
Glen Mack	Retired	Sauk City, WI	2004
Allan Breunig	Farmer	Sauk City, WI	2004
Robert Frey	Retired	Dane, WI	2005
Arden Ballweg	Farmer	Dane, WI	2005
William Wille	Farmer	Black Earth, WI	2005

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $25.00 for each half-day meeting and $50.00 for each full-day meeting attended and $0.30 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2002 Salary
Delwin Bruenig	President	$ 3,000
Allan Bruenig	Vice President	$ 0
L. Peter Wolf	Secretary/Treasurer	$18,000

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Rates & Forms Committee
Delwin Breunig, Chair
Peter Wolf
Allan Breunig
Ivan Breunig
William Willie

This committee reviews and makes recommendations to the board on premium rates, discounts, and policy forms.

Policy & Procedures Committee
Delwin Breunig, Chair
Peter Wolf
Allan Breunig
Glenn Mack
Herman Hoffman

This committee reviews and makes recommendations to the board on matters of general business procedures, adjusting, and how it functions.

Executive & Finance Committee
Delwin Breunig, Chair
Peter Wolf
Allan Breunig

This committee makes recommendations to the board on investments and financial affairs. It can, under urgent circumstances, act with full authority of the board getting post decision approval from the board.

The board does the adjusting for the losses, however it is an informal committee. The lack of a claims adjusting committee is further discussed in the section entitled "Claims Adjusting."

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1997	$174,792	$100,937	605	$107,943	$1,601,563	$1,448,261
1998	191,105	188,015	603	26,212	1,657,965	1,498,961
1999	206,200	180,951	585	48,439	1,657,584	1,525,531
2000	151,081	116,788	594	33,011	1,700,526	1,561,271
2001	143,088	130,461	593	(512)	1,715,215	1,553,629

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1997	$307,665	$185,345	$1,448,261	21%	13%
1998	316,357	189,838	1,498,961	21	13
1999	310,183	187,748	1,525,531	20	12
2000	331,151	155,586	1,561,271	21	10
2001	347,541	151,294	1,553,629	22	10

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1997	$100,937	$50,213	$174,792	58%	27%	85%
1998	188,015	63,121	191,105	98	33	132
1999	180,951	55,873	206,200	88	30	118
2000	116,788	91,679	151,081	77	59	136
2001	130,461	92,631	143,088	91	61	152

In the five years since the prior examination, gross premiums written have increased by 13.0%, while net premiums written have declined by 18.4%. During the same period, surplus has increased by 7.3%. The company reported underwriting losses in four of the last five years, due to heavy storm-related losses and associated loss adjusting expenses. In addition, the company's reinsurance premiums increased significantly in 2000, the result of significant loss payments recovered from the reinsurer during 1998 and 1999. The lower amount of retained premiums, and higher operating expenses incurred, contributed to the 59% expense ratio in 2000. Despite underwriting losses in 1998 – 2001, the company was able to post a positive net income in four of the last five years. The company has also been able to keep policies in force stable throughout the last five years.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2002
Termination provisions:	January 1, 2003, or any subsequent January 1, by either party providing at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Quota Share
	Lines reinsured:	All business classified as casualty business
	Coverage:	100% of each and every loss including loss adjusting expense. A $1,000 deductible will be imposed where a raw milk contamination occurs. This deductible will be waived if the insured shows evidence of completion of the Dairy Quality Assurance Program within 12 months prior to the date of the claim.
	Reinsurance premium:	100% of the net premiums written in respect to the business covered
	Ceding commission:	13.5% of net premiums written
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business written by the company
	Company's retention:	When the net retention on a policy is $300,000 or more, the company may cede on a pro rata basis up to $800,000; When the net retention is less than $300,000, the company may cede on a pro rata basis up to 50% of such risk. See additional comments at the end of this section regarding the company's use of the Class B coverage.
	Coverage:	Pro rata share of each and every loss, including adjustment expenses, based on cessions made on individual policies.
	Reinsurance premium:	The pro rata portion of premiums corresponding to the amount of each risk ceded
	Ceding commission:	15.0% sliding scale considering company's loss ratio. When the loss ratio is 65.0% or greater a minimum commission of 15.0% is earned. The minimum commission will increase 1.0% for each 1.0% decrease in the loss ratio subject to a maximum commission of 35%.
3.	Type of contract:	Class C-1 Excess of Loss
	Lines reinsured:	All property business written by the company

Company's retention:	$30,000 each and every risk	
Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $30,000, subject to a limit of liability to the reinsurer of $70,000 per loss	
Reinsurance premium:	Current rate: Minimum rate: Maximum rate: Deposit Premium	17.8% of net premiums written 6.0% of net premiums written 17.8% of net premiums written $46,800

4. Type of contract: Class C-2 Excess of Loss

Lines reinsured:	All property business written by the company	
Company's retention:	$100,000 each and every risk	
Coverage:	100% of any loss, including loss adjusting expense, in excess of $100,000, subject to a limit of liability to the reinsurer of $200,000 per loss	
Reinsurance premium:	7.2% of net premium written, subject to an annual deposit premium of $18,900	

5. Type of contract: Class D/E Stop Loss

Lines reinsured:	All business written by the company	
Company's retention:	Net losses including loss adjustment expense exceed an amount equal to 80.0% of the net premiums written	
Coverage:	100% of the amount exceeding the company's retention, subject to a minimum retention of $170,000	
Reinsurance premium:	Current rate: Minimum rate: Maximum rate: Deposit Premium	15.0% of net premiums written 6.0% of net premiums written 25.0% of net premiums written $39,300

The Company does not fully utilize the reinsurance capacity provided by the Class B coverage and consequently retains more than $300,000 per risk. The company board of directors has established the following schedule for Class B reinsurance cessions:

Risk	Reinsurance Coverage
up to $700,000	none
$700,000 to $800,000	20%
$800,000 to $900,000	30%
$900,000 to $1,000,000	40%
$1,000,000 to $1,200,000	45%
over $1,200,000	50%

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Berry and Roxbury Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2001

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in Company's Office	$ 25	$	$	$ 25
Cash Deposited in Checking Account	14,324			14,324
Cash Deposited at Interest	807,469			807,469
Bonds (at Amortized Cost)	271,853			271,853
Stocks or Mutual Fund Investments (at Market)	564,219			564,219
Premiums and Agents' Balances In Course of Collection	2,519		256	2,263
Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	25,674			25,674
Investment Income Due or Accrued		15,426		15,426
Reinsurance Recoverable on Paid Losses and LAE	5,990			5,990
Electronic Data Processing Equipment – Excluding Software (Cost Less Accumulated Depreciation)	2,131			2,131
Fire Dues Recoverable	89			89
Reinsurance Premium Recoverable	5,752			5,752
Furniture and Fixtures	1,252		1,252	
TOTALS	$1,701,297	$ 15,426	$ 1,508	$ 1,715,215

Liabilities and Surplus

Net Unpaid Losses	$ 22,217
Unpaid Loss Adjustment Expenses	1,458
Commissions Payable	4,229
Unearned Premiums	127,595
Reinsurance Payable	5,622
Other Liabilities:	
Nonexpense Related	
Premium Paid in Advance	465
TOTAL LIABILITIES	161,586
Policyholders' Surplus	1,553,629
TOTAL	$ 1,715,215

Berry and Roxbury Mutual Insurance Company
Statement of Operations
For the Year 2001

Net Premiums and Assessments Earned	$ 143,088
Deduct:	
Net Losses Incurred	122,752
Net Loss Adjustment Expenses Incurred	7,709
Other Underwriting Expenses Incurred	92,631
Total Losses and Expenses Incurred	223,092
Net Underwriting Gain (Loss)	(80,004)
Net Investment Income:	
Net Investment Income Earned	78,642
Net Realized Capital Gains	0
Total Investment Income	78,642
Other Income:	
Miscellaneous Income	850
Total Other Income	850
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	(512)
Policyholder Refunds or Dividends	0
Net Income (Loss) Before Federal Income Taxes	(512)
Federal Income Taxes Incurred	0
Net Income (Loss)	$ (512)

Berry and Roxbury Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the 5-Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	$1,342,006	$1,448,261	$1,498,961	$1,525,531	$1,561,271
Net income	107,943	26,212	48,439	33,011	(512)
Net unrealized capital gains or (losses)	(351)	23,169	(21,877)	5,655	(11,062)
Change in non-admitted assets	(1,337)	1,319	8	(2,926)	3,932
Surplus, end of year	$1,448,261	$1,498,961	$1,525,531	$1,561,271	$1,553,629

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2001 is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Accounts and Records—It is recommended that the company comply with s. Ins 50, Wis. Adm. Code, and file an annual audited financial report.

   Action—No Longer Valid, s. Ins. 50, Wis. Adm. Code has been amended to say an annual audited financial report is required when premiums are in excess of $500,000 and 564 policyholders. The amendment places company in compliance.

2. EDP Environment—It is recommended that the company establish procedures to limit access to its computers.

   Action—Non-Compliance, see comments in the summary of current examination results.

3. EDP Environment—It is recommended that the company develop a manual documenting the use of its software.

   Action—Compliance

4. Disaster Recovery Plan—It is recommended that the company develop an adequate disaster recovery plan which identifies steps to be taken in case a key employee of the company is lost.

   Action—Compliance

5. Cash and Invested Cash—It is recommended that the company deposit all cash receipts at least weekly in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

   Action—Compliance

6. Agents' Balances or Uncollected Premiums—It is recommended that the company establish a procedure for canceling policies for nonpayment of premiums on a timely basis and in accordance with s. 631.36, Wis. Stat.

   Action—Partial compliance, see comments in the summary of current examination results.

7. Net Unpaid Loses—It is recommended that the company establish a procedure of including an estimate of the amount of the loss in the claim file, and that all claims settled in excess of $1,000 contain signed proofs of loss.

   Action—Partial compliance, see comments in the summary of current examination results.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

The 1996 amendment to the company's articles and bylaws was not filed with the Commissioner for approval. It is recommended that the company comply with s. 612.04 (2), Wis. Stat., which states that no change in the articles, bylaws, or business plan is effective until approved by the Commissioner.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

The examiners found that an agent has written business for the company that was not listed with the company. Section Ins 6.57 (5), Wis. Adm. Code, provides that no insurer shall accept business directly from any intermediary unless that intermediary is a licensed agent listed with that company. It is recommended that the company not accept applications until such time as it is determined that the intermediary submitting the application is a licensed intermediary listed with the company as required by s. Ins 6.57 (5), Wis. Adm. Code.

During review of reinsurance it was noted that company cedes first surplus reinsurance at a certain percentage based on the amount of total risk. However, during testing the examiners found that management was not following procedures according to the schedule determined by the board. It is recommended company cede first surplus reinsurance according to the schedule determined by the board. Examiners also found that the Annual Statement Interrogatory number 4 did not properly reflect the company's probable maximum loss. The company's calculation did not consider the actual percentage that is reinsured under the determined first surplus schedule. It is recommended Interrogatory number 4 concerning probable maximum loss be completed to properly reflect risk ceded under all reinsurance.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 250,000 ($2,500 deductible)
Directors & Officers Liability	1,000,000 ($5,000 deductible)
Insurance Company Professional Liability	1,000,000 ($5,000 deductible)
Insurance Agents Errors & Omissions	1,000,000 ($1,500 deductible)
Workers' Compensation/Employers Liability	
Bodily Injury by Accident (Per Accident):	100,000
Bodily Injury by Disease (Per Employee):	100,000
Bodily Injury by Disease (Policy Limit):	500,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company indicated it does not have any formal inspection procedures, however farmowner new and renewal business is regularly inspected by board members independent of the risk under consideration and review. Given that the farmowners represent the company's largest risks procedures do not seem unreasonable. Current underwriting guidelines do not require pictures on all new business. It is suggested that the company include photos of the insured properties with their policy file and that this step be included in the inspection procedure for both new and renewal business.

The examiner also reviewed a sample of policies that were cancelled during 2001 for compliance with s. 631.36 Wis. Stat. It is the company's policy to send out cancellation notices for non-payment but not for policies that are not renewed at the request of the policyholder. The examiner noted that there were several policies that were non-renewed by the policyholder, for which no cancellation notice was sent out. This puts the company at risk, as s. 631.36(4), Wis. Stat., states that the policyholder has the right to extend coverage if proper notice as described in the statute is not sent. A problem could arise if the company does not send the notice, because the policyholder could later demand to have coverage renewed even if the company may have decided to non-renew the policy for underwriting reasons. It is recommended that the company send out policy cancellation notices for all canceled policies, including policies that are not renewed at the request of the policyholder.

Claims Adjusting

The full board acts as an adjusting committee, which meets the requirements of s. 612.13(4), Wis. Stat., that the company have an adjusting committee consisting of at least three directors. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is not audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company’s Electronic Data Processing environment. Company computer used is not password word protected therefore access to the computer is not limited to people authorized to use the computer. It is again recommended that the company establish procedures to limit access to its computers.

Company personnel back-up the computer every three to four days and the backed-up data is kept off-site. The computer itself is protected through virus protection software, which is updated on a regular basis.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software, although it may be suggested company expand and update procedures on a regular basis.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 461,586
2.	Liabilities plus 33% of gross premiums written	414,689
3.	Liabilities plus 50% of net premiums written	375,647
4.	Amount required (greater of 1, 2, or 3)	461,586
5.	Amount of Type 1 investments as of 12/31/2001	1,174,797
6.	Excess or (deficiency)	713,211

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$821,818**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 25
Cash deposited in banks-checking accounts	14,324
Cash deposited in banks at interest	807,469
Total	$ 821,818

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of twelve deposits in nine depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled $49,481 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 7.05% to 2.75%. Accrued interest on cash deposits totaled $8,527 at year-end.

Book Value of Bonds **$271,853**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2001. Bonds owned by the company are held under the custody of a bank trust company.

Bonds were verified by review of the custodian's year-end statement of the company's investments. Selected bond purchases and sales for the period under examination were also checked to the custodian's account statements. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2001 on bonds amounted to $23,650 and was traced to cash receipts records. Accrued interest of $6,899 at December 31, 2001, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$564,219**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. Stocks owned by the company are located in a safety deposit box or held under the custody of a bank trust company.

Stock certificates were physically examined by the examiners or traced to the custodian statement. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2001 on stocks and mutual funds amounted to $11,539 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2001.

Agents' Balances or Uncollected Premiums **$2,263**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Investment Income Due and Accrued **$15,426**

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Cash deposited in banks at interest	$ 8,527
Cash deposited in banks at interest	6,899
Total	$ 15,426

Reinsurance Recoverable on Paid Losses **$5,990**

The above asset represents recoveries due to the company from reinsurance on losses, which were paid on or prior to December 31, 2001. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$2,131**

This asset consists of computers and printers owned by the company at December 31, 2001. The examiner verified this asset by reviewing purchase documentation, and testing accumulated depreciation.

Fire Dues Recoverable **$89**

This amount represents fire dues overpaid on 2001 business. The examiner verified this asset to filed tax returns. The amount will be applied against 2002 fire dues.

Reinsurance Premium Recoverable **$5,752**

This asset represents amounts due from the reinsurer for sliding scale commissions under the Class B – First Surplus contract. The amount was traced to subsequent cash receipts and to documentation from the reinsurer.

Equipment, Furniture, and Supplies **$0**

This asset consists of $1,252 of net book value of equipment and fixtures owned by the company at December 31, 2001. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$22,217**

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$ 26,400	$ 24,794	$ 1,606
Less:			
Reinsurance Recoverable on Unpaid Losses	4,183	3,573	610
Net Unpaid Losses	$ 22,217	$ 21,221	$ 996

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2001. An estimated amount for 2001 and prior losses remaining unpaid was added to actual paid loss figures at the examination date. The above difference of $996 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were not properly signed.

The examination noted that losses settled in excess of $2,000 did not have a signed proof of loss. Management has set $2,000 as the minimum level for requiring a proof of loss but did not abide by this rule. It is recommended company follow procedures determined by management requiring a signed proof of loss statement for all claims settled in excess of $2,000.

Unpaid Loss Adjustment Expenses **$1,458**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate of 5% of gross unpaid losses.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$4,229**

This account consists of amounts due to agents for 2001 premiums and commissions payable on deferred premiums. Agent balances was verified by tracing to cash receipt records in the subsequent period. Commissions payable on deferred premiums was computed by using deferred premium total multiplied by 15%. The examiners found this liability to be reasonably stated.

Unearned Premiums **$127,595**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. The examiner reviewed the company's calculation of this balance, and determined this liability to be adequately stated.

Reinsurance Payable **$5,622**

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions that occurred on or prior to that date. The annual statement amount consisted of a deferred reinsurance balance, less 15% commission receivable on the Class B coverage, and was traced to a year-end deferred premium report supplied by the reinsurer.

Premiums received in Advance **$465**

This liability represents the premium paid in advance. It was verified by comparing the list for advance premiums to cash receipts.

V. CONCLUSION

As of December 31, 2001, the company reported assets of $1,715,214, liabilities of $161,586, and Policyholders' Surplus of $1,553,629. There were no examination reclassifications, nor were there any adjustments as a result of this examination.

In the five years since the prior exam, gross premiums written have increased by 13.0%. During the same period, Net Premiums Written have declined by 18.4%, and Surplus has increased by 7.3%. The company reported underwriting losses in four of the last five years, due to heavy storm-related losses and associated loss adjusting expenses. In addition, the company's reinsurance premiums increased significantly in 2000 – the result of significant loss payments recovered from the reinsurer in 1998. Despite underwriting losses in 1998 – 2001, the company was able to post a positive net income in four of the last five years.

The current exam resulted in one repeat and seven new recommendations. The recommendations are summarized in the 'Summary of Comments and Recommendations' section of this report.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company comply with s. 612.04 (2), Wis. Stat., which states that no change in the articles, bylaws, or business plan is effective until approved by the Commissioner.

2. Page 15 - Corporate Records—It is recommended that the company not accept applications until such time as it is determined that the intermediary submitting the application is a licensed intermediary listed with the company as required by s. Ins 6.57 (5), Wis. Adm. Code.

3. Page 15 - Corporate Records—It is recommended company cede First Surplus reinsurance according to schedule determined by the board.

4. Page 15 - Corporate Records— It is recommended Interrogatory number 4 concerning probable maximum loss be completed to properly reflect risk ceded under all reinsurance.

5. Page 17 - Underwriting—It is recommended that the company send out policy cancellation notices for all canceled policies, including policies that are not renewed at the request of the policyholder.

6. Page 17 - EDP Environment—It is again recommended that the company establish procedures to limit access to its computers.

7. Page 23 - Net Unpaid Losses—It is recommended company follow procedures determined by management requiring a signed proof of loss statement for all claims settled in excess of $2,000.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Lori Cretney of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Rebecca Easland
Examiner-in-Charge